

OPTions

A newsletter
for the members
of the OPSEU
Pension Trust

Plan Change: Extension of Surplus Factor 80 For Those Facing a Layoff

If you receive a layoff notice, you now have access to the Surplus Factor 80 option for the effective period of the recently negotiated Central Collective Agreement between OPSEU and the Ontario Government. The Government pays the cost of this benefit improvement, which was scheduled to end on December 31, 2004.

Under Surplus Factor 80, you may be eligible to retire with an immediate unreduced pension if:

- you receive a layoff notice on or before **December 31, 2008**, and
- your age plus your credit total 80 years or more on or before **December 31, 2008**, and on or before your last day of employment.

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Thinking of Retiring Early? Factors to Consider

Regardless of where you are in your career, it's never too soon to think about retirement, especially if you'd like to retire early. Of course, a big part of the retirement planning process concerns setting your personal and financial goals. Knowing how your OPTrust pension can help you achieve your goals is an important part of that process.

This is the second installment in the retirement planning series to help you start thinking ahead. To help plan your retirement, OPTrust provides a number of useful tools and publications. Our website – www.optrust.com – is a great place to start. We also recommend that you consult an independent financial advisor to help you set and work towards your financial goals.

Retiring Early with an Unreduced Pension

Knowing your pension options when considering early retirement is the first step. For instance, you may be eligible for an early, unreduced pension if you attain:

- Factor 90 – your age plus your credit (in years, months and days) total at least 90 years
- 60/20 – you are at least 60 years old and have 20 or more years of credit.

If you qualify for either of the above early retirement provisions, your pension will be based on your credit in the Plan at your termination date. The basic pension formula will be used to calculate your pension, and at age 65 your pension will be

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reduced to reflect Canada Pension Plan (CPP) integration. You may decide to collect your CPP pension before age 65, but this will not affect your OPTrust pension, as OPTrust does not integrate your pension with CPP until age 65.

Retiring Early with a Reduced Pension

If you do not qualify for an early unreduced pension, you may retire at age 55 or older with a reduced pension. Please note that deferred members who qualify may also choose to retire early with a reduced pension. You are eligible for early retirement with a reduced pension if:

- you have at least two years of credit or continuous membership in the Plan, and
- you are at least 55 years old when you end your employment and membership in the Plan.

With this type of early retirement, your pension is calculated using the basic pension formula (and does not include the CPP reduction until age 65). However, your pension is reduced by 5% for each year you are under age 65. The reduction will be prorated for partial years.

Points Off

If you terminate your employment on or before November 30, 2005, and begin receiving your pension by December 2005 with “points off,” the reduction equals 5% for every year you are away from your earliest unreduced retirement date (i.e., Factor 90, 60/20 or age 65).

In projecting this date, we use:

- your age when you begin to receive your pension, and
- your credit when your plan membership ended.

For example, if you are 57 years old and would be eligible for Factor 90 in two years, under “points off,” your pension would be reduced by 10% if you begin receiving your pension by December 2005. Under the regular plan rules, your pension would have been reduced 5% for every year you were less than 65 (using this example, 40%).

This means you must terminate employment – and notify us to start your pension – by **November 30, 2005**, at the latest.

A Reminder

Approximately six months before you plan to stop working is a reasonable period of time to start making arrangements for retiring. OPTrust generally requests that our office receive all required documents pertaining to your retirement at least three months prior to your termination date. Of course, if you give less notice OPTrust will serve you in a timely manner, but waiting until only a few weeks before retirement could cause delays in your first pension payment.

Working After Retirement

If you’ve begun thinking about retirement, you may be wondering what role work may play in your future. For many people, the last thing they want to do after retiring is work. For others, the option to continue working, either at the same job or a new one, can be a blessing. Depending on your circumstances and what activities you’d like to pursue in your retirement, the option to continue working may be for you.

If you choose to start receiving your pension and then start working again, who you work for may affect your pension. If you work for an employer who does not contribute to the OPSEU Pension Plan, your pension is not affected. If you are re-employed or engaged by an employer who contributes to the Plan, the impact on your pension depends on your salary and whether or not you rejoin the Plan. Please contact OPTrust before you decide to work again for an employer who contributes to the Plan.

It is your responsibility to inform a participating employer that you are currently receiving a pension.



To retire under Surplus Factor 80, you must:

- notify your employer in writing that you are retiring under this provision within 92 days of the last day of the month in which you receive your layoff notice, and
- leave your employment and end your membership in the Plan no later than the layoff date in the layoff notice.

Bridging to an Unreduced Pension

OPTrust members who receive a notice of layoff may also be able to “bridge” to an unreduced pension. Bridging requires special provisions in your collective agreement allowing the use of leaves of absence, the surplus notice period and the period represented by severance payments to reach the date on which you become eligible for one of the Plan’s unreduced retirement options.

Please contact your human resources representative or OPTrust for more information if this option applies to you.



You Asked...

Question: I work at the LCBO. Will the OLBEU merger with OPSEU affect my pension?

Answer: No, the merger will not affect your OPTrust pension. However, should you know someone in an unclassified or non-permanent position at the LCBO, please let that person know that he or she has the option to join the OPSEU Pension Plan at anytime. Information on joining the Plan can be found on our website where the brochure *Joining the OPSEU Pension Plan* may be downloaded. Print copies are available by contacting OPTrust.

2004 Funding Valuation Highlights

With the completion of the latest funding valuation, the OPSEU Pension Plan’s financial stability was further underlined. Because of this stability, member and employer contribution rates are not expected to increase before 2007 at the earliest.

KEY 2004 VALUATION HIGHLIGHTS

OPTrust’s Actuarial Assets	\$10.4 billion
Projected Future Member and Employer Contributions	\$2.9 billion
Estimated Future Cost of Members’ Lifetime Pension Benefits	\$13.1 billion
Funding Shortfall	\$428 million
Stabilization Funds to Cover Shortfall:	\$461 million
• From Members: \$185 million	
• From Government: \$276 million	
<i>From their respective stabilization funds, both members and the Government will each pay \$24 million annually over the next 15 years to cover the shortfall.</i>	
Amount the Government paid from its reserve to enable members to retire under Surplus Factor 80 provisions	\$72 million

Managing Gains

The commitment to sound governance by the Government and OPSEU is reflected in the practice of only approving those permanent benefit improvements that the Plan can afford. We do not anticipate having to roll back improvements, and no reduction in future pension benefits is contemplated.

The bottom line – for our 74,000 members and pensioners – is that the OPSEU Pension Plan is in solid financial shape and fully capable of delivering a secure pension that you and your family can count on in your retirement years.

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OPTrust Welcomes New Trustee: Michael Beswick



Michael Beswick

“ In the short time I have been on the Board I have been very impressed with the professionalism of the Trust’s operations and the quality of service provided. I hope to contribute to the continuation of this tradition. ”

– Michael Beswick



Jordan Berger

OPTrust is pleased to announce the appointment of Michael Beswick to the Board of Trustees by the Government of Ontario.

Recently retired in 2004 as Senior Vice-President, Pensions, for the Ontario Municipal Employees Retirement System (OMERS), Beswick was associated with OMERS since 1974. He started in the policy area and was responsible for pension administration, policy, communications, systems and data. Apart from OMERS, he has worked in the areas of pensions, employee benefits and compensation in industry.

Beswick plays an active role on a number of Boards including the Association of Canadian Pension Management (past President), the Toronto Board of Trade Pension and Benefits Committee, Providence Healthcare and its Pension Committee, and the editorial board of the *Pension and Benefits Monitor* magazine. He is a past member of the Salvation Army Investment Committee, the Victoria Order of Nurses Pension Committee and the Trent University Board of Governors, where he was chair of Trent’s Investment and Pension Committee.

New Vice-Chair: Jordan Berger

Trustee Jordan Berger was appointed to Vice-Chair of the Board in the spring. First appointed to the Board in 2001, Berger has worked as OPSEU’s Supervisor, Strategic Planning and Policy Development since 1997. He is responsible for policy research and planning on a wide range of issues facing the union. During the early 1990s, he worked as a policy advisor to the Chair of Management Board of Cabinet during Ontario’s Rae government.

The Board of Trustees also extends a fond farewell to Bob Bellamy who served as a Government appointee from 2000 to 2005, and to David Rapaport, a Union appointee, who was on the Board from 2002 to 2005, and served as Board Chair and Vice-Chair. Rapaport remains as a temporary Trustee at the request of the OPSEU Executive Board.

OPSEU and the Government of Ontario jointly sponsor the OPSEU Pension Trust. Each sponsor appoints five volunteer Trustees to the Board, which is responsible for overseeing the investment of the Plan’s assets, the administration of members’ and pensioners’ benefits, and the provision of quality service to OPTrust’s membership. Every two years, the roles of Chair and Vice-Chair alternate between a Government and an OPSEU appointee.

Investments: Growing Real Estate

In the fall of 2004 we told you about OPTrust's commitment to a long-term strategy to increase the size of the Plan's real estate investment portfolio. Since then, we've expanded our portfolio with \$220 million funded to the end of 2004 and a further \$232 million funded during the first half of 2005. As a result, our real estate portfolio now comprises approximately 4.0% of the Plan's total assets as at June 30, 2005, up sharply from less than 0.5% at the end of 2003. This growth is in keeping with changes to the asset mix approved by the Board of Trustees in 2003 to increase the real estate portfolio to 9.5% of the total Fund.

Real Estate's Advantage

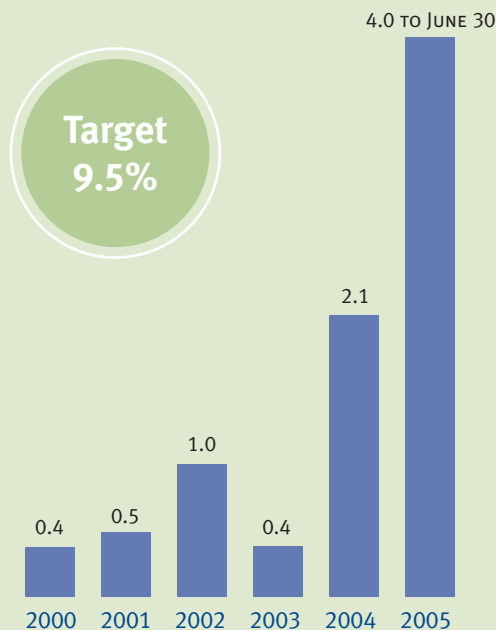
The trend among many Canadian pension funds is to invest in commercial real estate, and with good reason. Over time, real estate has proven to be an excellent investment, providing fund diversification, solid performance and steady income returns. What's more, real estate tends to be more stable than stocks and performs well during periods of inflation, which can help offset increases to retirees' indexed pensions.

Diversity is Key

According to Robert Douglas, Managing Director of OPTrust's Real Estate Investments, "Our strategy is to invest directly in office, retail, industrial and multi-family properties in Canada and use indirect investment vehicles for the U.S. and other international markets. However, the cornerstone of our strategy is to ensure diversity by property type, geography, and investment manager. With this approach we can draw on the Investment Division's strengths and resources while balancing management fees."

OPTRUST'S REAL ESTATE GROWTH OVER THE LAST FIVE YEARS

(% of total Fund assets)



OPTrust's real estate portfolio has a growth target of 9.5% of the Plan's total net assets.

Performance-wise, the real estate portfolio posted returns of 12.9% in 2004, the same as in 2003. According to Mr. Douglas, OPTrust can expect another year of solid investment returns from its growing real estate portfolio in 2005. Because of its favourable investment characteristics for pension funds, real estate will remain a key asset in OPTrust's portfolio for the foreseeable future.

You Asked...

Question: I've just had my first child. Should I update my beneficiaries?

Answer: Yes. It is a good idea to notify OPTrust of any changes to your beneficiary information. You can check, update or change your beneficiary information through OPTrust's secure *Online Services*. Alternatively, you may complete an *Identifying Benefit Recipients* (OPTrust 1015) form, available on our website or by request through OPTrust's Member and Pensioner Services or your HR department.

Please note that if you are considering making changes to your beneficiary information, there are a number of things to consider. Factors like your marital status or whether or not your children are in school full-time after age 18 could affect who would receive a benefit in the event of your death. That's why we suggest you read our booklet *Your Pension and Your Beneficiaries*, which you can download from our website or request from our Member and Pensioner Services staff.

Message to Members on OPTrust's Funding Status

With the completion of the latest actuarial valuation as at December 31, 2004, which was approved by the Board in September 2005, it was revealed that your pension plan remains secure and in a strong financial position.

Here's an update on the situation. We currently have \$10.4 billion in actuarial assets, plus \$2.9 billion in projected future contributions from current members and their employers. The estimated future cost of members' lifetime pension benefits is \$13.1 billion. As a result, the Plan has a funding shortfall of \$428 million. While this is up from the previous year, the current shortfall amounts to only 4% of the Plan's actuarial assets.

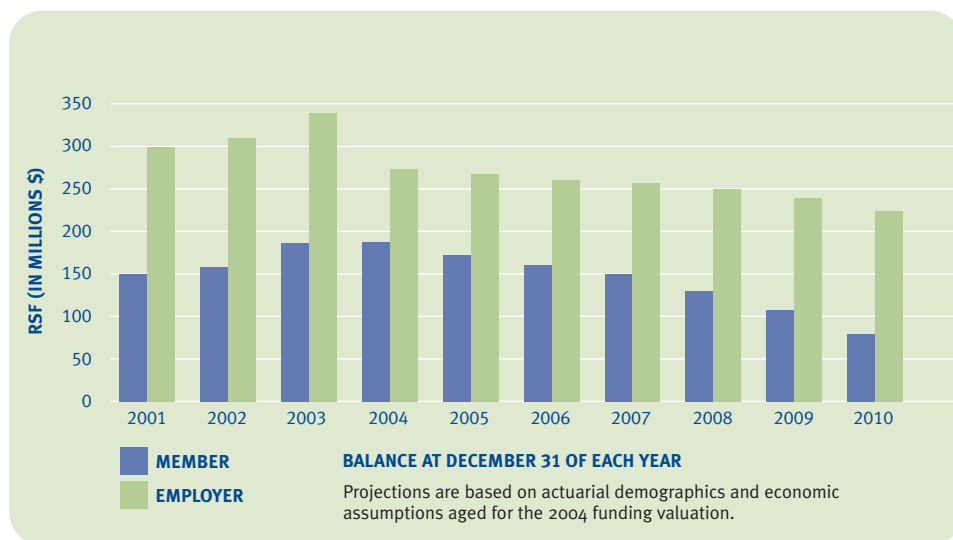
However, consistent with their commitment to prudence, the Plan's sponsors – OPSEU and the Ontario Government – set aside funds during the years of strong investment returns to keep the fund in a strong financial position during periods of weaker returns. Specifically, the Government set aside \$276 million, and OPSEU \$185 million. The combined \$461 million in reserves is more than enough to cover the current deficit.

Beginning in 2004, each sponsor began to use a portion of its rate stabilization funds to cover the annual unfunded liability payments. That means member and employer contributions will not rise above the normal rate until at least the Plan's next required funding valuation.

"We believe that we are the only major Canadian pension plan to successfully reserve a significant portion of past gains to offset a funding gap and thus eliminate the risk of contribution rate increases," said Bill Foster, OPTrust's acting Executive Vice-President and Chief Administrative Officer. "This is what good pension fund governance is about."

Anticipation and Planning

Pension regulations in Ontario require an actuarial valuation to be carried out at least once every three years to ensure that sufficient assets are set aside to pay for future pension benefits. Since OPTrust performed a valuation in 2001, it did not require another until the end of 2004; we chose instead to do the next valuation in 2003. The reason for doing so was to more actively



manage the investment losses the Plan incurred in 2001 and 2002 – years in which many investors had losses.

With the completion of the actuarial valuation, as of the end of 2003, it was revealed that the Plan had a net loss of \$255 million for 2002 and 2003. That loss was anticipated, as we developed our Liability Management Strategy to address investment losses from 2001 and 2002. We also anticipated that those losses would impact the Plan's funding status for 2005 and 2006. However, as mentioned above, both OPSEU and the Government prudently set aside a part of the funding gains realized between 1999 and 2001 in separate contribution rate stabilization funds.

Trustees, staff and actuaries of the Plan will continue to monitor the funding health of the Plan very closely, while pursuing the Plan's multi-year liability management strategy.

10th Anniversary Coverage: A Snapshot of Change at OPTrust

	1995	2004
Net Assets	\$ 5.7 billion	\$ 10.5 billion
Annual Plan Operating Expenses	\$ 12.4 million	\$ 22.0 million
Total Members & Pensioners	68,270	73,795
Active Members (does not include deferred members)	63,389	44,243
Average Member's Age	41.9	44.4
Average Member's Annual Salary	\$ 39,809	\$ 49,085
Average Years of Plan Credit	11.1	11.5
Pensioners	4,836	20,246
Average Age	59.9	63.9
Pension Payments	\$ 74 million	\$ 370 million

Did you know?

- Because of inflation protection, an annual OPTrust pension of \$18,000 in 1995 has increased to \$21,851 in 2005.
- We launched our website in September 1999, and in November of 1999 the site received about 500 visits. Since then, our site regularly receives more than 10,000 visits a month.

Buying Back Credit for the 1996 OPS Strike

After the 1996 OPS strike, all affected members were given the opportunity to buy back credit for the strike period. More than 25,000 members took advantage of special payment options and purchased this credit. However, several thousand other members did not complete their strike buyback. Under the OPSEU Pension Plan's buyback rules, these members are still eligible to purchase credit for the 1996 strike.

To buy back this service you must still be a contributing member of the Plan, and you must complete all payments, including interest, by March 31, 2007, as this is the date that OPTrust's 10-year buyback payment time limit for the 1996 OPS strike comes to an end. For members who did not complete the purchase of credit for the 1996 strike, special statements will be mailed this fall that will provide you with updated costing and payment options.

For more information, please contact OPTrust Member and Pensioner Services.

Facts About... Plan Governance

What do we mean when we say an organization is "well governed?" In the case of OPTrust, it means that the Board of Trustees, which represents OPSEU members and the Ontario Government, takes an active approach to ensuring that OPTrust effectively conducts and manages the business for which OPTrust was created. That is, to pay the pensions of OPSEU members now and in the future. Over the last 10 years, the fulfillment of that responsibility has been a resounding success. Looking ahead, the role of good governance at OPTrust will continue to play a critical role in ensuring that our 74,000 active and retired members – and their families – can depend on us for a secure retirement income.

Who Does What or Best Practices

Our governance model provides detailed guidelines and responsibilities to ensure the Plan is effectively managed. Effective management starts with the Board of Trustees, which is responsible for oversight of all aspects of the Plan's operation. In all areas, the Trustees retain overall governance responsibility, but also select and monitor staff and external service providers to implement OPTrust policy across the full range of specialized areas.

The Trustees oversee OPTrust's investment policies and performance, and select and monitor specialized investment advisors and money managers to ensure that money is

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available to pay members' and pensioners' benefits now and in the future. The Trustees also ensure that the proper processes are in place to monitor the Plan's liabilities, and that the Plan's financial statements accurately reflect its financial position. In this regard, the Trustees receive important advice and support from the Plan's external actuary and auditor. In addition, the Trustees oversee the Plan's administration to ensure both members and pensioners receive the benefits to which they are entitled, along with timely and effective communications and services.

As part of their mandate, the Trustees receive an intensive orientation to the Plan and ongoing training in pension plan governance and administration. The Board also retains independent advisors – including legal, actuarial, investment and accounting professionals, and an independent custodian – to help the Board manage investment and operational risks. The Trustees set policy and strategic priorities and monitor the performance of the Plan through its senior management team, which in turn employs measures to ensure staff accountability.

Overseeing Governance

Among the various committees established by the Board to ensure the ongoing success of OPTrust is the *Governance and Compensation Committee*. The fact that OPTrust has such a committee is a testament to the critical importance that governance plays in the organization. Stan Sanderson, Chair of the committee, explained the committee's two-fold task: "Our committee is responsible for reviewing, considering and recommending the right course of action to take when governance issues arise. But we also do an annual review of the objectives, performance and compensation of the Plan's two Executive Vice-Presidents – the Chief Investment Officer and the Chief Administrative Officer. So, when you consider the Plan's

founding documents as agreed to by both sponsors, as well as the responsibilities of the Trustees, standing committees and senior management, OPTrust has a sound governance structure that helps ensure the Plan stays on the right track."

Standing Committees of the Board

In addition to the *Governance and Compensation Committee*, the Trustees have established four other committees that report to the Board:

- **Administration Committee:** oversees the Plan's operations including its organizational plans, and operating and capital budgets.
- **Audit Committee:** ensures that OPTrust's financial statements are complete and objective, reviews the Plan's accounting and financial policies and ensures OPTrust's systems and processes comply with legal and professional standards.
- **Investment Committee:** monitors the performance of the OPSEU Pension Trust Fund and its investment managers, and reviews their compliance with OPTrust's investment policies and related legal and regulatory requirements.
- **Adjudication Panel:** gives plan members and pensioners access to a review process in the event of disputes concerning OPTrust's decisions on eligibility, benefit entitlements or other pension-related rights under the OPSEU Pension Plan.

Good Governance Enhances Pension Security

OPTrust's governance structure is designed to ensure that the Plan's members and pensioners can depend on a secure retirement income. Although the overall fiduciary responsibility for the Plan rests with the Trustees, it is the responsibility of all OPTrust employees to ensure that they perform their duties to a fiduciary standard with a view to helping secure the pension promise for every plan member.

OPTions

OPTions is a newsletter for members of the OPSEU Pension Trust. Its goal is to provide useful and timely information about the OPSEU Pension Plan.

If there is any conflict between statements in this newsletter and the legal documents of the OPSEU Pension Plan, the legal documents will prevail. Please direct any questions about your personal benefits under the Plan to OPTrust. You should contact OPTrust before making any pension-related decisions.

If you have any questions or comments, please contact us.

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